ACEA

European Automobile Manufacturers Association

Press Release

EU governments must denounce unfair competition to European industries in trade conditions for South Korea

- Severe competitive disadvantage to European industries
- EU manufacturing and employment at risk
- Harmful precedent for other EU free trade agreements

Brussels, 8 July 2009 – EU governments should not accept to close the current free trade negotiations with South Korea before a balanced outcome is assured in order to safeguard competitiveness and employment levels in Europe.

"The responsibility resting on policy makers is huge", said Ivan Hodac, Secretary General of the European automobile industry's trade association ACEA, ahead of the G8 in Italy and a decisive EU diplomats' meeting in Brussels this week.

"The current proposals give an unfair competitive advantage to Korean industries and set a harmful precedent for FTAs between the EU and other major trading partners, undermining an important pillar of standing EU trade policy. Such an outcome would affect EU industries far beyond the auto industry alone and pose a severe risk to the manufacturing base of Europe", added Hodac. "This is unacceptable, and even more so in a time when all efforts are aimed at getting through the current economic crisis. There is absolutely no reason to open a European market of over 500 million people on Korean terms."

The EU should reject, in particular, any compromises on the so-called Duty Drawback clause and Rules of Origin threshold, both essential instruments to ensure a level playing field in international trade. "First, South Korean manufacturers would be allowed to import higher amounts of parts and components from neighbouring countries. Second, they could claim the duties back that they paid on these parts, as soon as the full product – also duty-free - is on its way to Europe" added Hodac. "This proposal effectively opens the door for cheap imports from China and other Asian countries, without giving similar advantages to European industries."

The current proposals, furthermore, do not sufficiently improve access to the South Korean market. In particular, they fail to secure existing international vehicle standards when entering the Korean market, notably in the fields of emissions and safety. This constitutes an important non-tariff barrier to trade.

The European trade Commissioner has repeatedly claimed to have solved the crucial remaining issues preventing an agreement. But the proposed amendments, including a so-called 'safeguard clause', do not present any tangible improvement. The Commission's own customs and tax experts have explicitly warned against accepting the Duty Drawback clause, fearing potentially very negative effects for EU industries. DG Trade, however, has failed to do a thorough impact assessment in advance.

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Note to editors:

Automotive is the largest component in the EU/South Korea trade relationship. Automotive represents 14% of the total EU/South Korea trade volume, with 17% of all Korean exports to the EU consisting of cars. EU car exports represent 4% of total exports to South Korea. The EU27 has consistently had a trade deficit with Korea: €14.8 billion in 2007, €19.9 in 2006, €14.2 in 2005, €12.7 in 2004. Of the trade deficit, 40% stems from the huge disequilibrium in automotive trade.

For South Korea, automotive is the centre piece of the FTA. Automobiles are the most important export product of the South Korean economy. The South Korean car industry is focused on exports, with a production of 3.5 million cars per year, of which 2.5 million (73%) are exported. By contrast, 80% of cars produced in the EU are also registered in the EU. The EU is a key target market for Korean manufacturers, with 700,000 cars in 2007, or 20% of all EU car imports, and an average 10% annual growth between 2000 and 2007.

South Korean competitiveness is expected to jump: The FTA represents a transfer volume of at least €1 billion per year, as tariffs will drop from 10 to 0% in 3-5 years, leaving a cost advantage of 700,000 times €1,000 on average. South Korean imports of car parts from neighbouring low-cost countries will strongly increase due to the Duty Drawback Clause plus a weakening of the Rules of Origin threshold to up to 50%, representing another €500 per car on average.

The EU would enable South Korean manufacturers to offset the rise in production costs in their home country, **at the expense of fair competition** for EU manufacturers, and at the expense of South Korean production in the EU. Concessions on Duty Drawback and Rules of Origin set a precedent for future FTAs with countries such as India and Japan.

EU **access to the Korean car market will remain severely capped** because of the problem of NTBs (non-tariff barriers). South Korea does not fully acknowledge international test cycles and standards, and applies its own unique rules. An approved and tested EU car cannot be sold in South Korea; costly modifications are required. In 2007, the EU exported just 30,000 cars to South Korea. South Korean manufactured cars control more than 94% of the Korean market; South Korea has the lowest level of import penetration of any developed country.

About ACEA

The European automotive industry is key to the strength and competitiveness of Europe. The ACEA members are BMW Group, DAF Trucks, Daimler, FIAT Group, Ford of Europe, General Motors Europe, Jaguar Land Rover, MAN Nutzfahrzeuge, Porsche, PSA Peugeot Citroën, Renault, Scania, Toyota Motor Europe, Volkswagen and Volvo. They provide direct employment to more than 2.3 million people and indirectly support another 10 million jobs. Annually, ACEA members invest €20 billion in R&D, or 4% of turnover.

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